



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

R. KEVIN CLINTON
STATE TREASURER

January 2015

**IMPORTANT TAX RETURN DOCUMENT ENCLOSED
DO NOT DISCARD**

Dear MET Participant:

Enclosed is a Form 1099-Q, Payments from Qualified Education Programs (under Sections 529 and 530 of the Internal Revenue Code) showing the total amount of educational benefits and/or refunds paid by Michigan Education Trust (MET) to colleges, universities or refund designees during the 2014 tax year. The Internal Revenue Service (IRS) requires all Qualified Tuition Plans (also called Section 529 Plans) such as MET to issue a Form 1099-Q to participants who received MET benefits or a refund during the 2014 tax year.

The enclosed Form 1099-Q, is also being furnished to the IRS. If any portion of MET benefits or refunds you received in 2014 are earnings (the increase in value earned on the prepaid tuition amount), you may need to report this information on your tax return. MET is required to report that amount to the IRS in accordance with the IRS instructions to filers, even though it may be tax exempt. See "Box 2 – Earnings" on the enclosed Federal Form 1099-Q. If you did not have MET earnings during 2014 the amount in Box 2 will be zero (0).

Tax-Exempt Earnings on MET Distributions

Beginning January 1, 2002, **earnings** on MET distributions used for a beneficiary's qualified higher education expenses **may be** exempt from federal and state income taxes. To determine whether all or a portion of the MET distributions are taxable, see IRS Publication 970 (www.irs.gov). We recommend that MET participants consult with a professional tax preparer or advisor as to specific applications of these provisions to your situation. For purposes of this exemption, the IRS defines qualified higher education expenses as tuition, fees, books, supplies and equipment required for enrollment at an eligible higher education institution. Room and board are also considered to be qualified higher education expenses if the beneficiary was enrolled at least part-time. It is your responsibility to keep receipts to substantiate any qualified higher education expenses.

Taxable Earnings on MET Distributions

Earnings on MET distributions not used to pay for qualified higher education expenses are subject to state and federal income taxes. If you receive a taxable distribution, you also must pay a 10% additional tax on the amount included in income. Report taxable earnings as follows:

- Federal Form 1040. Report the taxable earnings amount as "other income" on line 21. Include an explanation identifying the amount listed on line 21 as "MET unearned income." Do not file Form 1040A or Form 1040EZ, as these forms do not provide a line to include MET earnings. You may wish to consult a tax advisor. See IRS Publication 970 or call the IRS at 1-800-829-1040 for further information.
- Federal Form 1040. Report the 10% additional tax on line 59.
- MET earnings are not subject to federal self-employment tax; therefore, you do not need to file a Schedule SE.
- Michigan Form MI-1040. The Michigan income tax form requires you to first list your Adjusted Gross Income (AGI) from your Federal Form 1040 to determine taxable income. Therefore, any taxable MET earnings will be included in the AGI computation, and you should not add MET earnings again when completing your state income tax forms.

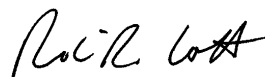
If you are a **purchaser** of a MET contract and you received a taxable refund from MET, you may deduct the MET earnings portion of the refund (to the extent included in AGI) from your **Michigan** taxable income on line 13 of Form MI-1040.

Do not attach the enclosed statement to your Michigan tax return when filing. For further information regarding the Michigan income tax form, you may call the Michigan Department of Treasury at (517) 636-4486 or visit www.michigan.gov/taxes.

To view benefit payment details, visit the MET website at www.SETwithMET.com, in the right column under Login click on "Access your contract information." If you are a new user or if you have not logged in since October 2011, you must register and establish a new user ID and password. Once logged in, click on the contract number, and then click on the "Benefits Information" tab.

Please review the information on the enclosed Form 1099-Q, compare it with your records, and contact the MET office if there are any discrepancies **no later than February 20, 2015**. If you identify any errors or have any questions regarding the enclosed form, call the MET office at (800) 638-4543 or (517) 335-4767 in the greater Lansing area.

Sincerely,



Robin R. Lott
Executive Director
Michigan Education Trust

Enclosure